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FISCAL IMPACT STATEMENT

LS 6474

BILL NUMBER: HB 1064

NOTE PREPARED: Jan 17, 2006

BILL AMENDED:

SUBJECT: School Levy Freeze.

FIRST AUTHOR: Rep. Buck

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill imposes a freeze on the total amount of ad valorem property taxes that may be imposed by a school corporation for all funds beginning in 2007. It provides that another school fund must be used if for any reason there is a debt service obligation that is guaranteed from property taxes and constitutes an increased debt burden over 2006 levels. The bill allows the Department of Local Government Finance to increase the limit to allow a school corporation or tax increment financing area to meet its obligations if insufficient money is available after the taxing unit has eliminated all discretionary spending and sold all surplus property. It permits a school corporation to exceed the limit if a referendum is passed. This bill also limits the referendum increase to 1% over the limited amount and to the period approved in the referendum. It permits the referendum tax levy to be allocated to any fund.

The bill establishes a Local Income for Education Surtax at a rate of 0.25% for individuals, at a rate of 0.63% for corporations and financial institutions, and at a rate of 0.1% for utilities and insurance companies electing to pay the Insurance Premium Tax. It deposits the surtax revenue into a dedicated state fund named the Local Income for Education (LIFE) Fund.

The bill modifies the school funding formula to provide that the amount that would have been contributed in a year from general fund property taxes above the freeze limit is instead replaced with distributions distributed from the LIFE fund.

The bill provides for a supplement LIFE distribution of not more than: (1) the assessed value growth quotient times the prior year LIFE distribution; minus (2) the current year general fund property tax replacement amount. The bill permits the supplemental distribution to be allocated to any fund.

Effective Date: July 1, 2006; January 1, 2007.

Explanation of State Expenditures: *PTRC:* The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. The total amount of Property Tax Replacement Credits and Homestead Credits is limited to \$2,028.5 M for FY 2007. If the total amount to be distributed exceeds the appropriation, then the distribution is proportionately reduced. The freezing of the property tax levies for schools at the CY 2006 level would reduce the state PTRC and Homestead Credit expenditures for FY 2008 and later. The approximate reduction for CY 2008 is projected to be about \$42.2M and \$85.7 M for CY 2009. The actual reductions in PTRC and Homestead Credit would depend on the school formula in place for CY 2008 and later. Currently, no school formula is in place for CY 2008 and later.

LIFE Fund: The state would make expenditures from the LIFE fund to local schools. The distribution to a local school is the school's total property tax levy for the previous year plus the previous year's LIFE distribution times the assessed value growth quotient minus the school's CY2006 property tax levy. The distributions from the fund are projected to be \$168.8 M for CY 2007, \$334.3 M for CY 2008, and \$526.8 M for CY 2009 and would continue to increase by about \$169 M annually. It is projected that by CY 2011 the balance in the LIFE fund would be negative. If there is insufficient money in the LIFE fund to pay for the distribution to local schools calculated by the formula, then the distribution is proportionately reduced.

Explanation of State Revenues: The bill creates an Local Income for Education Surtax to provide revenue to local schools to offset the effects of the property tax freeze. The following table shows the taxes that would be increased and the projected revenues from each tax.

Funding Sources	Surtax Rate	CY 2007	CY 2008	CY 2009
Utility Receipts Surtax	0.1%	12,178,571	12,178,571	12,178,571
Individual AGI Surtax	0.25%	337,524,816	347,650,561	358,080,077
Corporate AGI Surtax	0.63%	45,249,202	46,787,674	48,378,455
Financial Institutions Surtax	0.63%	6,818,824	6,818,824	6,818,824
Insurance Premiums Surtax	0.1%	13,515,385	13,515,385	13,515,385
Total		415,286,797	426,951,015	438,971,312

The revenue would be deposited into the LIFE fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Referendum:* The bill allows property taxes to exceed the property tax freeze limit if a referendum is passed. The amount of the referendum increase is limited to 1% of the property tax freeze amount. The maximum amount of referendum in a year is about \$40 M.

Levies: It is unknown the impact the bill would have on school revenue and could vary from school to school depending if a school did not levy their maximum amount in every fund for CY 2006. The bill would provide annual growth in revenue from property taxes and the LIFE fund equal to the assessed value growth quotient. A school is required to first deposit the portion of the LIFE distribution required by the school formula into the general fund. The remainder of the distribution may be deposited among the other school funds. The quotient

is projected to be 4% for CY 2007 and 2008. If the growth in the levies for a school has been greater than 4%, maybe due to the construction of new schools, then the school could have reduced revenue. If there is insufficient money in the LIFE fund to pay for the distribution to local schools calculated by the formula, then the distribution is proportionately reduced.

Background: Schools have six primary property tax funds, and the current property tax controls vary by fund. The Capital Projects Fund and the Special Education Fund have a maximum property tax rate that can be assessed on property. The Debt Service Fund and the School Bus Replacement Fund are allowed to levy sufficient amounts to repay school bonds and to replace the school buses over a 10-year period. The Transportation Fund is allowed to grow by the assessed value growth quotient, and the General Fund levy is determined by the school formula.

State Agencies Affected: Department of Local Government Finance; Department of State Revenue.

Local Agencies Affected: Local Schools.

Information Sources: December 14, 2005, Revenue Forecast; Department of Local Government Finance databases.

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